

**MTI WIRELESS EDGE LTD**  
**Annual Report 2007**

**Mti** WIRELESS  
EDGE

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EDGE

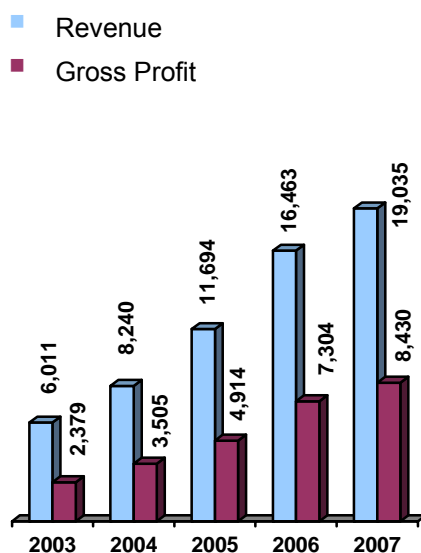
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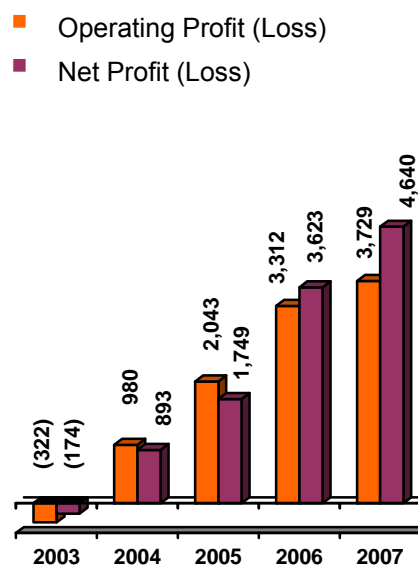
## Company Overview

MTI is a developer and manufacturer of sophisticated antennas and antenna systems, including antennas that are sold for use in WiMAX compliant systems. The Company produces antennas ranging in frequency from 100KHz to 40GHz, for both military and commercial applications and has an international customer base. MTI's business has grown rapidly in recent years as wireless broadband technology has increasingly become an established global commodity. Over 75% of the Company's sales are in the fixed wireless communications market, predominantly for broadband systems. The Directors estimate that the Company has captured a 25% global market share in the FBWA antenna market largely, via a number of leading OEMs who are MTI's customers. The company continued its penetration into the RFID readers' antenna market and in 2007 a significant effort was spent in the development of antennas and business relations with Tier 1 customers. The Company is based in Israel and employs (as of 28<sup>th</sup> of February 2008) 77 employees.

**Revenue & Gross Profit 2003 – 2007**  
(US dollar in thousands)



**Operating & Net Profit 2003 – 2007**  
(US dollar in thousands)

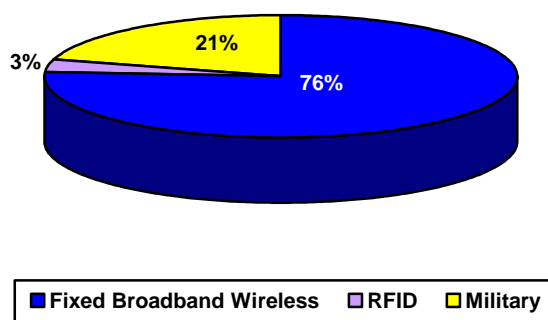


## 2007 Highlights

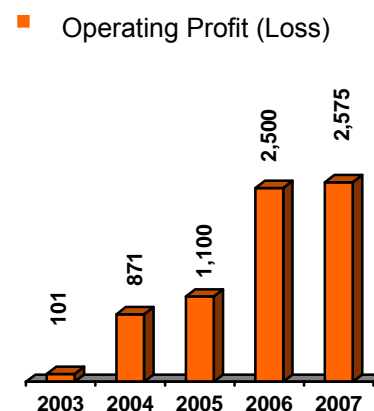
- Revenues increased by 16% to \$19m (2006: \$16.4m)
- Gross profits up 15% to \$8.4m (2006: \$7.3m)
- Operating profit improved by 13% to \$3.7m (2006: \$3.3m)
- Profit before tax up 26% to \$5m, (2006: \$3.9m). The PBT without warrants effect\* was \$4m, an increase of 1%.
- Net Profit of \$4.6m (\$3.7m without warrant effect\*), representing EPS of 8.63c, an increase of 22% and 12%, respectively (2006: \$3.8m, 7.7c).
- Net cash generated from continuing operations reached \$2.6m; Net cash at the year end of \$14.6m, equivalent to 13.75 pence per share;
- Dividend of 1.85c per share and a \$1.5m share buy back
- Strong growth in military antennas including penetration into North American market.
- Strong penetration to Indian WiMax market

\* As announced on November 7th, 2007 the 3,730,631 warrants provided to certain investors should be recorded at their fair value as a liability in each financial reporting statement and marked to market by adjusting the liability against financial income or expenses as applicable.

Revenue by segments – 2007



Operating Cash Flow 2003 – 2006  
 (US dollar in thousands)



## Chairman's letter to Shareholders

Dear Shareholders,

I'm pleased to report on a successful set of results for the financial year ended 31 December 2007, achieving another year of continued revenue and profit growth.

2007 was a challenging year as we saw increased competition in the WiMax market. Nevertheless, we were able to maintain our 25% market share based on the quality of our products and our long term relationships with key customers as well as penetration into new geographical markets, such as India. Having identified India as one of the fastest growing markets in wireless communications, we have taken the decision to establish a manufacturing facility in that country which the management intends to have operational in the near future.

The business enters 2008 in good financial health and with excellent opportunities for further growth. Nevertheless, the Israeli Shekel has strengthened sharply (~7%) against the US dollar in the first 2 months of 2008, which results in some additional costs to our business. This is in addition to a 10% change in the exchange rate in 2007 for which we were able to adjust. Strong sales growth to our military customers and the increased market penetration in North America which we achieved in 2007, promises a strong year for this division. Increased demand from our RFID customers, together with several early deployment stages provides us with a wider product offering for 2008, although Fixed Broadband Wireless Access (FBWA/WiMax) will continue to be dominant as we witness demand increasing for this application.

The Board has decided to distribute a dividend of 1.85 cents per share as we strongly believe it is in the interest of shareholders to receive a yearly yield on their investment, while the company is managing its growth not only in terms of profits but also in cash generation. The dividend will be payable on 4 April 2008 to shareholders on the register as of 14 March 2008.

We believe strongly in the success of the Company as evidenced by the board approval of a \$1.5 million share buyback program. We expect to initiate the stock buyback when our window opens this quarter. Management is excited about our prospects and remains committed as ever to the continued growth of both our company and shareholder value.

I would like to complement our employees on this achievement and thank each and everyone for their dedication and creativity that had enabled our improvement in the business. I further would like to acknowledge with thanks the employees' families for their continued support.

Zvi Borovitz  
Non Executive Chairman

## Chief Executive's Review

On behalf of management, I am delighted to report on a strong year of revenue growth for the company. Revenues for the year increased by 16% to \$19m, with Profit Before Tax improving by 26% on 2006 to \$5m.

The Company remains focused on the growth of the business and on further developing its position as a leader in the antenna markets for fixed wireless communication. Maintaining our significant market share of 25% in the fixed broadband wireless access (WiMax) market is achieved through solid and stable leadership positioning and through strategically managing the Company's growth in each of its fields of activities.

Once again we have succeeded in delivering not only top-line growth, but comprehensive, cross-company, managed growth in terms of geography, technology, range of competences and customer base within our selected markets.

In 2007 we have seen more deployments of systems in the field coupled with price pressure. We have shipped over 600,000 antennas (50% growth over 2006) and in order to continue our growth without impacting upon our margin, we have decided to open a manufacturing facility in Asia. The necessary processes began in late 2007 and we hope to announce that the facility is fully functional by mid 2008.

Our aim is to strengthen the Company's leadership position within its chosen markets of operation, as well as increasing our geographical reach, thus maintaining our status as the partner of choice for antennas. In 2007, we were able to achieve these goals by gaining some additional original equipment manufacturer ("OEM") agreements in new areas.

In the past year the 802.16 standard (known as WiMax) has become a leading technology for future deployment of mobile wireless communication. Leading companies such as Sprint, Clearwire, Alcatel-Lucent, Nokia, Siemens, Motorola and Intel have chosen Wimax as their solution for future wireless services and solutions for 4G. This gave a strong push to the deployment of fixed Wimax solutions and will provide another area of opportunity for MTI in the future, when mobile Wimax starts deployment. MTI is developing the base station antennas for such Mobile WiMax applications to ensure that MTI fully benefits from this growth when it occurs.

As we have previously stated, although RFID is only in its initial stages, we strongly believe in the potential of this market. Therefore, we have made some important steps to position the Company as a key antenna provider, including penetration to Tier 1 customers, participation in key trials and the provision of a full range of reader's antennas for portals, forklift and near field antennas. We foresee 2008 as a next step in key trials and plan to be involved to ensure that MTI is well positioned to enjoy success once this market enters the full deployment stage.

Our military segment almost doubled in 2007 due to a naval contract win, and penetration into the North American market. Since the start of the new financial year we have seen recurring demand from the North American market, and further orders from the naval contract.

Looking ahead, management is confident about our market position in both fixed broadband wireless access and in military. We also have new initiatives, such as RFID and our intended Indian operation and continue to look for additional opportunities. All of this should continue to deliver contributions to both revenues and profit over the next 12 months. Nevertheless, we have experienced a dramatic change in the Israeli Shekel Vs. the US dollar which impacts upon our dollar costs (mainly for salaries) which will clearly have an impact on our profitability, should the exchange rate stay at current levels.

As always, our pipeline orders only reflect several weeks, but the forecast for the year is built from a combination of long term relationships with our leading customers and the global expansion of WiMax systems, and is underpinned by some large scale tenders in which we are currently involved.

I would like to finalize my review by thanking the employees and their families for the hard work, dedication and support. It is their creativity, perfectionism and implementation that led MTI to its position in the market and we see them as the key to our success.

Dov Feiner  
Chief Executive Officer

## Our Board

**Zvi Borovitz** – Chairman  
Non Executive Director  
Age 69

Zvi founded MTI in the early 70's together with his late wife Aya. He has more the 40 years of experience in development and management of high tech companies. Zvi holds an MS in Electrical Engineering from Polytechnic Institute of Brooklyn.

**Dov Feiner** – Chief Executive  
Executive Director  
Age 52

Dov has planned and implemented the Company's entry into the commercial antenna market. Prior to joining the Company, Prior to joining MTI, Dov served for 12 years in the research and development division of the Israeli Defense Force. Dov holds a B.Sc. in Electrical and Computer Engineering from Ben Gurion University where he graduated with honors.

**Moshe (Moni) Borovitz** – Finance Director  
Executive Director  
Age 37

Moni, the son of Zvi Borovitz, is also Co-Chief Executive Officer of MTI Computers. He was a consultant with Ernst & Young's Israeli affiliate Kost Forer & Gabbay, a leading Israeli certified public accountancy firm. Moni is a certified public accountant with a B.A. in Computer Science from Tel Aviv University, and has an MBA from Ben Gurion University.

**Hanna (Hani) Lerman**

Non Executive Director

Age 35

Hani is the Chief Financial Officer of Storewiz, prior to that she served as the CFO of SunGard Business Integration Ltd., a subsidiary of SunGard Data Systems Inc., a global leader in software and processing solutions for financial services, and of Insider Online. Prior to that Hani managed the department of professional practice at KPMG Israel. Hani is a certified public accountant and holds a B.A. in Economics and Accounting, and an MBA majoring in Finance from Tel Aviv University.

**Stewart Millman - Non Executive Director**

Chairman of the Remuneration and Audit Committee

Age 59

Stewart has over 30 years' experience in finance and the financial markets. He was an institutional fund manager for 10 years and a corporate financier for 20 years, including managing director roles at Barclays de Zoete Wedd, NatWest Markets and HSBC Investment Bank. His corporate finance experience includes transactions involving major telecoms operators and various IT companies. Since 2002, he has been self-employed, is currently non-executive chairman of Patsystems plc, a company traded on AIM, and acts as an adviser to, and/or non-executive director of, various companies in the UK, Israel and elsewhere.

## Corporate Governance

The following statement of corporate governance reflects the position of the Company as at 31 December 2007.

The board is responsible for the Company's corporate governance policy, and recognize the importance of high standard of integrity, and consistently seeks to apply the principles set out in the Combined Code of on Corporate Governance (the "Code") to the extent they are appropriate for, and applicable to, a company of MTIs' size quoted on the Alternative Investment Market ("AIM").

### Directors

Pursuant to the provisions of the Israeli Companies Law, the Company has nominated Stewart Millman and Hanna Lerman as external directors. As such their initial term of an external (independent) director is three years and this may be extended for one additional three-year term. The external (independent) director has to serve on the Audit committee and serves on the Remuneration committee. The rest of the board members are elected annually in the share holders meeting.

All the directors have access to the advice and services of the Company Secretary and may, in furtherance of their duties, take independent legal and financial advice at the Company's expense. They also have access to the minutes of the Board, in which any concerns expressed by them regarding matters pertaining to the Company are recorded. While there is no formal process, the performance and effectiveness of each director, including the non-executive directors, is assessed on an on-going basis by the other members of the Board. All members of the board are free to bring any matter to the attention of the Board, at any time.

### Board Meetings

The Board is responsible for formulating, reviewing and approving the Company's strategy, budgets and corporate actions. The board generally meets five times a year and at such other times as required, and receives regular reports on a wide area of key issues including operational performance, risk management and corporate strategy, budget and corporate actions etc and other areas which are either required by law or deemed relevant by the management.

## Committees

The Audit Committee and the Remuneration Committee meet at least twice a year.

### Audit Committee

The audit committee is chaired by Stewart Millman. The other member is Hanna Lerman. The external auditors, together with the financial director, are invited to attend these meetings as and when required.

In accordance with its terms of reference the principal function of this committee is to determine the appropriateness of accounting policies to be used in the Company's annual results. In addition the Committee is responsible for assessing the Company's audit arrangements and the Company's system of internal controls, and for reviewing the quarterly and annual results before publication. The responsibilities of the Audit Committee include all matters required to be covered by the Combined Code and the Israeli Companies Law.

The Israeli Companies Law requires the Company to have an internal auditor appointed by the Board. The internal auditor is responsible for examination of the Company's internal controls and reviewing their effectiveness and reports to the Audit Committee.

### Remuneration Committee

The Remuneration Committee is chaired by Stewart Millman. The other member is Hanna Lerman. In accordance with its terms of reference the committee reviews the performance of the executive directors and make recommendations to the Board on matters relating to their remuneration and terms of employment. The committee should also make recommendations to the Board on proposals for the granting of share options and other equity incentives pursuant to any share option scheme or equity incentive scheme. The remuneration arrangements of the non-executive directors are determined by the Board as a whole and, in accordance with the Israeli Companies Law, approved in the Annual General Meeting of its Shareholders.

## Relations with Shareholders

The Board welcomes the views of shareholders.

The Annual General Meeting (AGM) is used as an opportunity to communicate with shareholders. All shareholders are encouraged to attend the Company's AGM in order to take advantage of the opportunity to ask questions of the directors.

Shareholders may also contact the Company in writing or via its website, which is regularly updated. Additional information is supplied through the circulation of the Quarterly Report and the Annual Report and Accounts. During the year the Company issued a series of announcements to the Stock Exchange and had updated its web site to conform with the Aim Rule 26. The Chief Executive, Finance Director and the Chairman from time to time meet individual and institutional shareholders and provide such information as is permissible in order to facilitate a better understanding of the Company's business and operations.

## Internal Control

The Board of Directors has overall responsibility both for the Company's system of internal controls, which includes internal financial controls and for reviewing their effectiveness. The directors recognize that no system of internal control can provide absolute assurance. The Company's systems are designed to manage the risk of failure to achieve business objectives and therefore can only provide the directors with reasonable assurance against material misstatement or loss.

The key elements of the Company's internal control system, which have been operational since the Company's flotation in March 2006, are as follows:

### Management Structure

The Board has overall responsibility for the Company and there is a formal schedule of matters specifically reserved for decision by the Board. Each executive director has been given responsibility for specific aspects of the Company's affairs.

### Monitoring Systems used by the Board

The Board receives regular reports on the financial and business performance of the Company. The Board is regularly advised through these reports on the financial performance relative to the Company's approved budget and update on the backlog and pipeline status.

### Internal Audit

The Board has, in accordance with the Israeli Companies Law, appointed Mr. Meir Hershtein as its internal auditor.

### Going Concern

The Directors have a reasonable expectation that the Company have adequate resources to continue in operational existence for the foreseeable future. For this reason they continue to adopt the going concern basis in preparing the financial statements.

### Compliance Statement

Corporate Governance procedures are subject to regular review by the Board. Throughout the year the Company has complied with the provisions as set out in Section 1 of the Code, to the extent that they are appropriate for, and applicable to, a company of MTI's size quoted on AIM.

## Report on Directors Remuneration

### Remuneration Committee

The Remuneration Committee, which comprises all of, and only, only non-executive independent directors, determines Company remuneration (including bonuses and options) of executive directors.

### Policy on Company Remuneration

The Company operates in the telecommunication industry. Accordingly, in setting remuneration, the board has to be mindful of competitive pressures from the market, and at the same time controlling its fixed cost base where a high proportion of the Company's expenses are staff related.

The Company maintains a balance between remaining market-competitive and ensuring that some element of total staff remuneration is related to the financial performance of the Company as a whole.

### Policy on Senior Executive Remuneration

It remains the Company's policy to set the remuneration of senior executives (including executive directors) at a level to attract and retain executives of appropriate ability, experience and integrity to manage the affairs of the Company. In formulating its remuneration policy, the Remuneration Committee considers pay and employment conditions throughout the Company.

### Director's Remuneration

Name	Total Company cost (including bonuses)	Shares held by each Director
Dov Feiner	\$256K	2,789,000
Moshe Borovitz*	\$217**	83,000
Zvi Borovitz*	**	-
Hanna Lerman	£20,000	38,461
Stewart Millman	£20,000	38,461

(\*) Each of Zvi and Moshe Borovitz also has an interest in 25 per cent. of Mokirei Aya Ltd. which controls 39.11 per cent. of the issued share capital of MTI Computers (37.65 per cent. on a fully diluted basis), as of 31 December 2007, which has an interest in 47.7 per cent. of the issued share capital of the Company.

(\*\*) Zvi and Moshe Borovitz are providing management services to the company through a company controlled by them (the "Management Company"). These management services will consist of the services of Mr. Zvi Borovitz who serves as a non-executive chairman of the Company and Mr. Moshe Borovitz who serves as the financial director of the Company. The total cost to the company for these services accumulated to \$ 175K in 2007.

### Service Contracts

The Company has a service agreement with the Management Company as above, in respect of the services of Messrs Zvi and Msohe Borovitz. The initial term of this agreement is for a period of 2 years from the date of Admission and will be automatically renewed for successive 2 year periods, unless terminated earlier by either party on 90 days' advance written notice.

Dov Feiner has a service contract with a notice provision in excess of six months.

All Non Executive Director besides the Chairman are entitled for a fee of £20,000 per annum, paid quarterly.

These fees are determined with reference to available information on the fees paid to Non Executive Directors in other companies of broadly similar size, market cap and complexity. Non Executive Directors are entitled to be reimbursed for reasonable out-of-pocket expenses in line with the policy applied to the Company's employees.

## Financial Statements

**M.T.I WIRELESS EDGE LTD.**

Report and Financial Statements

Year Ended

December 31, 2007



**ZIV HAFT**  
Certified Public Accountants (Isr.)

# **M.T.I WIRELESS EDGE LTD.**

**(An Israeli Corporation)**

## **FINANCIAL STATEMENTS**

### **TABLE OF CONTENTS**

	<b><u>Page</u></b>
<b>REPORT OF INDEPENDENT AUDITORS</b>	3
<b>FINANCIAL STATEMENTS:</b>	
Income Statement	4
Statement of changes in equity	5
Balance sheet	6-7
Cash flow statement	8-9
Notes forming part of the financial statements	10-37

**The amounts are stated in U.S. dollars (\$).**

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## Report of the independent auditors

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### To the shareholders of M.T.I Wireless Edge Ltd.

#### Report on the financial statements

We have audited the accompanying financial statements of M.T.I Wireless Edge Ltd.(hereafter- "the company"), which comprise of the balance sheet as at 31 December 2007, and the income statement, statement of changes in equity and cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes.

#### Management's responsibility for the financial statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

#### Auditor's responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

#### Opinion

In our opinion, the financial statements give a true and fair view of the financial position of the company as of December 31, 2007, and of its financial performance, its cash flows and its equity for the year then ended in accordance with International Financial Reporting Standards.

Without qualifying our opinion, we draw attention to Note 2 of the financial statements regarding Restatement relates to 3,730,631 warrants provided to certain investors.

As explained in Note 2 the Company has restated the financial data for the period ending 31.12.2006 in order to retroactively reflect the change made in the accounting treatment of warrants granted to certain investors.

Tel-Aviv, Israel February 29, 2008

Ziv Haft  
Certified Public Accountants (Isr.)  
BDO Member Firm

**M.T.I Wireless Edge Ltd.**

**Income statement for the year ended December 31, 2007**

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	<b>Notes</b>	<b>Year ended December 31,</b>	
		<b>2007</b>	<b>(*) 2006</b>
		<b>\$'000</b>	<b>\$'000</b>
Revenues	3, 5	19,035	16,463
Cost of sales		<u>10,605</u>	<u>9,159</u>
<b>Gross profit</b>		8,430	7,304
Research and development expenses		1,415	1,121
Distribution costs		1,946	1,783
General and administrative expenses		<u>1,340</u>	<u>1,088</u>
<b>Profit from operations</b>	4	3,729	3,312
Finance cost	6	94	102
Finance income	6	<u>1,369</u>	<u>746</u>
<b>Profit before tax</b>		5,004	3,956
Tax on profit from ordinary activities	7	<u>364</u>	<u>161</u>
<b>Profit for the year</b>		<u><u>4,640</u></u>	<u><u>3,795</u></u>
<b>Earnings per share</b>			
Basic (dollars per share)	8	<u><u>0.0863</u></u>	<u><u>0.0770</u></u>
Diluted (dollars per share)	8	<u><u>0.0853</u></u>	<u><u>0.0741</u></u>

(\*) Restated - see note 2.

**The accompanying notes form an integral part of the financial statements.**

M.T.I Wireless Edge Ltd.

Statement of changes in equity for the year ended December 31, 2007

	<u>Share capital</u> \$'000	<u>*Additional paid in capital</u> \$'000	<u>*Retained earnings</u> \$'000	<u>Total</u> \$'000
<b>Balance at January 1, 2006</b>	2	7,561	374	7,937
<b>Changes in equity for 2006:</b>				
Profit for the year	-	-	3,795	3,795
Issuance of share capital***	**	79	-	79
Share capital as a result of split	80	(80)	-	-
Additional capital raised in AIM listing ****	33	7,385	-	7,418
Dividend distributed	-	-	(2,000)	(2,000)
<b>Balance at December 31, 2006</b>	<u>115</u>	<u>14,945</u>	<u>2,169</u>	<u>17,229</u>
<b>Changes in equity for 2007:</b>				
Profit for the year	-	-	4,640	4,640
Dividend distributed	-	-	(898)	(898)
<b>Balance at December 31, 2007</b>	<u><u>115</u></u>	<u><u>14,945</u></u>	<u><u>5,911</u></u>	<u><u>20,971</u></u>

\* Restated - see note 2.

\*\* Less than 1 thousands dollar.

\*\*\* Exercise of employee's warrants to shares, grant of shares to directors and warrants to investors.

\*\*\*\*Net of issuance expenses in the amount of \$1,631 thousand.

The accompanying notes form an integral part of the financial statements.

**M.T.I Wireless Edge Ltd.**

**Balance sheets**

	Notes	As at December 31,		As at December 31,	
		2007	2007	* 2006	* 2006
		\$'000	\$'000	\$'000	\$'000
<b>ASSETS</b>					
<b>Non-current assets:</b>					
<b>Property, plant and equipment (PPE)</b>	10	1,522		1,435	
Goodwill	11	406		406	
Long-term prepaid expenses		55		32	
Deferred tax assets	22	95		69	
<b>Total non-current assets</b>			2,078		1,942
<b>Current assets:</b>					
Inventories	12	2,253		1,724	
Trade and other receivables	13	6,369		5,360	
Other financial assets	14	11,203		11,133	
Cash and cash equivalents	15	3,370		2,167	
<b>Total current assets</b>			23,195		20,384
<b>TOTAL ASSETS</b>			25,273		22,326
<b>LIABILITIES</b>					
<b>Non-current liabilities:</b>					
Financial liabilities	19	-		22	
Employee benefits	21	266		231	
<b>Total Non-current liabilities</b>			266		253
<b>Current Liabilities:</b>					
Trade and other payables	16	3,222		3,267	
Tax liability		494		250	
Other financial liabilities	17	22		87	
Liabilities due to warrants	18	298		1,240	
<b>Total current liabilities</b>			4,036		4,844
<b>Total liabilities</b>			4,302		5,097
<b>TOTAL NET ASSETS</b>			20,971		17,229

(\*) Restated - see note 2.

**The accompanying notes form an integral part of the financial statements.**

**M.T.I Wireless Edge Ltd.**

**Liabilities and shareholders' equity**

	<b>Notes</b>	<b>As at December 31,</b>		<b>As at December 31,</b>	
		<b>2007</b>	<b>2007</b>	<b>(*) 2006</b>	<b>(*) 2006</b>
		<b>\$'000</b>	<b>\$'000</b>	<b>\$'000</b>	<b>\$'000</b>
<b>Capital and reserves attributable to equity holders of the company</b>	23				
Share capital		115		115	
Additional paid-in capital		14,945		14,945	
Retained earnings		<u>5,911</u>		<u>2,169</u>	
<b>TOTAL EQUITY</b>			<u>20,971</u>		<u>17,229</u>

The financial statements on pages 4 to 37 were approved by the Board of Directors on February 29, 2008, and were signed on its behalf by:

<u>February 29, 2008</u>			
Date of approval of financial statements	<u>Moshe Borovitz</u> Finance Director	<u>Dov Feiner</u> Chief Executive Officer	<u>Zvi Borovitz</u> Non-executive Chairman

(\*) Restated - see note 2.

**The accompanying notes form an integral part of the financial statements.**

**M.T.I Wireless Edge Ltd.****Cash flow statement for the year ended December 31, 2007**

	<b>For the year ended December 31,</b>		<b>For the year ended December 31,</b>	
	<b>2007</b>	<b>2007</b>	<b>(*) 2006</b>	<b>(*) 2006</b>
	<b>\$'000</b>	<b>\$'000</b>	<b>\$'000</b>	<b>\$'000</b>
<b>Operating Activities:</b>				
Net profit from ordinary activities	4,640		3,795	
Adjustments for:				
Depreciation	309		281	
Gain from short-term investments	(104)		(340)	
Deferred tax assets	(26)		(13)	
Issuance of share capital	-		79	
Decrease in fair value of liabilities due to warrants	<u>(942)</u>		<u>(172)</u>	
<b>Operating profit before changes in working capital and provisions</b>		3,877		3,630
Increase in inventories	(529)		(716)	
Increase in trade receivables	(1,094)		(1,749)	
Decrease in other accounts receivables for short and long term	62		43	
Increase (decrease) in trade and other payables	(20)		1,066	
Increase in tax liability	244		169	
Increase in employee benefits	<u>35</u>		<u>57</u>	
		<u>(1,302)</u>		<u>(1,130)</u>
<b>Cash generated from operations</b>		<u>2,575</u>		<u>2,500</u>

**Additional Information**

Cash paid during the year for:

Income tax	<u>181</u>	<u>11</u>
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(\*) Restated - see note 2.

**The accompanying notes form an integral part of the financial statements.**

**M.T.I Wireless Edge Ltd.**

**Cash flow statement for the year ended December 31, 2007 (Cont.)**

	<b>For the year ended December 31,</b>		<b>For the year ended December 31,</b>	
	<b>2007</b>	<b>2007</b>	<b>2006</b>	<b>2006</b>
	<b>\$'000</b>	<b>\$'000</b>	<b>\$'000</b>	<b>\$'000</b>
<b>Cash flows from operating activities brought forward</b>		2,575		2,500
<b>Investing Activities:</b>				
Sale (purchase) of short-term investment	34		(10,793)	
Purchase of PPE	<u>(421)</u>		<u>(263)</u>	
		(387)		(11,056)
<b>Financing Activities:</b>				
Dividend paid to shareholders equity	(898)		(2,000)	
Issue of ordinary shares	-		8,830	
Repayment of bank borrowing	<u>(87)</u>		<u>(87)</u>	
		<u>(985)</u>		<u>6,743</u>
<b>Increase (decrease) in cash and cash equivalents</b>		<u>1,203</u>		<u>(1,813)</u>
			<b>For the year ended December 31,</b>	
			<b>2007</b>	<b>2006</b>
			<b>\$'000</b>	<b>\$'000</b>
<b>Non-cash activities:</b>				
Purchase of PPE against trade and other payables			<u>41</u>	<u>66</u>

**The accompanying notes form an integral part of the financial statements.**

## **M.T.I Wireless Edge Ltd.**

### **Notes forming part of the financial statements for the year ended December 31, 2007**

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The directors of the Company are responsible for the financial information set out below.

#### **1 Accounting policies**

##### General

M.T.I Wireless Edge Ltd. (hereafter - the Company) is an Israeli corporation. It was incorporated under the Companies Act in Israel on December 30, 1998 as a wholly-owned subsidiary of M.T.I Computers & Software Services (1982) Ltd. (hereafter - the Parent Company) and commenced operations on July 1, 2000.

The formal address of the company is 11 Hamelacha street, Afek industrial Park, Rosh-Ha'Ayin, Israel.

The Company is engaged in the development, design, manufacture and marketing of antennas and accessories.

Certain rental, operational and administrative services are provided from the Parent Company to the Company.

##### Definitions

In these financial information:

The Company - M.T.I Wireless Edge Ltd.

Related parties - As defined in IAS 24.

##### Basis of preparation

The principal accounting policies adopted in the preparation of the financial statements are set out below. The policies have been consistently applied to all the years presented, unless otherwise stated.

These financial statements have been prepared in accordance with International Financial Reporting Standards (IFRSs and IFRIC interpretations) issued by the International Accounting Standards Board (IASB). The financial statements have been prepared under the historical cost convention, as modified by the revaluation of financial assets and financial liabilities at fair value through profit or loss.

**1 Accounting policies (Cont.)**

*Changes in accounting policies*

(a) New standards, amendments to published standards and interpretations to existing standards effective in 2007 adopted by the Company.

- IFRS 7, Financial Instruments: disclosures and a complementary amendment to IAS 1, Presentation of Financial Statements - capital disclosures (effective for accounting periods beginning on or after 1 January 2007). IFRS 7 introduces new requirements aimed at improving the disclosure of information about financial instruments. It requires the disclosure of qualitative and quantitative information about exposure to risks arising from financial instruments, including specified minimum disclosures about credit risk, liquidity risk and market risk. Where those risks are deemed to be material to the Company it requires disclosures based on the information used by key management. It replaces the disclosure requirements in IAS 32 'Financial Instruments: disclosure and presentation'. It is applicable to all entities that report under IFRS.

The amendment to IAS 1 introduces disclosures about the level and management of an entity's capital.

The Company has applied IFRS 7 and the amendment to IAS 1 to the accounts for the period beginning on 1 January 2007.

- IFRIC 8, Scope of IFRS 2 (effective for accounting periods beginning on or after 1 May 2006). IFRIC 8 requires consideration of transactions involving the issue or grant of equity instruments to establish whether or not they fall within the scope of IFRS 2. It applies to situations where the identifiable consideration received is or appears to be less than the fair value of the equity instruments issued. There was no impact on the Company's accounts from its adoption.
- IFRIC 9, Reassessment of embedded derivatives (effective for accounting periods beginning on or after 1 June 2006). IFRIC 9 requires an assessment of whether an embedded derivative is required to be separated from the host contract and accounted for as a derivative when an entity becomes a party to the contract. Subsequent reassessment is prohibited unless there is a change in the terms of the contract that significantly modifies the cash flows that otherwise would be required under the contract, in which case reassessment is required. There was no impact on the Company's accounts from its adoption.
- IFRIC 10, Interim Financial Reporting and Impairment (effective for accounting periods beginning on or after 1 November 2006). IFRIC 10 prohibits impairment losses recognised in an interim period on goodwill and investments in equity instruments and on financial assets carried at cost to be reversed at a subsequent balance sheet date. There was no impact on the Company's accounts from its adoption.

**1 Accounting policies (Cont.)**

- (b) Standards, interpretations and amendments to published standards effective in 2007 but which are not relevant to the Company's.

The following standards, amendments and interpretations to published standards are mandatory for accounting periods beginning on or after 1 January 2007 but are currently not relevant to the Company's operations:

- IFRIC 7, Applying the restatement approach under IAS 29, Financial Reporting in Hyperinflationary Economies (effective for accounting periods beginning on or after 1 March 2006). IFRIC 7 provides guidance on the application of IAS 29 requirements in a reporting period in which entity identifies the existence of hyperinflation in the economy of its functional currency, when the company was not hyperinflationary in the prior period. IFRIC 7 is not relevant to the Company's as none of the Company's companies has a currency of a hyperinflationary economy as its functional currency.

Revenue recognition

1. Revenues from services are recognized as follows:

In fixed fee contracts - according to International Accounting Standard No. 11 "Construction - Type Contracts pursuant to which revenues and costs are reported by the "percentage of completion" method.

The percentage of completion is determined by dividing actual completion costs by the anticipated completion costs.

In cases where a loss from a project is anticipated, a provision is made in the period in which it first becomes evident, for the entire loss anticipated until completion, as assessed by the Company's management.

2. Revenues from sales of products are recognized upon delivery, provided no significant vendor obligations remain.

Goodwill

Goodwill represents the excess of the cost of a business combination over the interest in the fair value of identifiable assets, liabilities and contingent liabilities acquired. Cost comprises the fair values of assets given, liabilities assumed and equity instruments issued, plus any direct costs of acquisition.

Goodwill is capitalized as an intangible asset with any impairment in carrying value being charged to the income statement.

**1 Accounting policies (Cont.)**

From the beginning of the 2005 financial year, the Company adopted the precepts of International Accounting Standard 38 and International Financial Reporting Standard 3. Previously, the Company was amortizing its goodwill over a 10 year period on the straight line basis. The new policy requires that goodwill be tested on an annual basis and written down when impaired.

In accordance with the transitional rules of IFRS3, the Company has applied the revised accounting policy prospectively from the beginning of its first annual period beginning on or after 31 March 2004, i.e. 1 January 2005.

Impairment of non-financial assets

Impairment tests on goodwill and other intangible assets with indefinite useful economic lives are undertaken annually on December 31 or sooner when there are signs of impairment. Other non-financial assets are subject to impairment tests whenever events or changes in circumstances indicate that their carrying amount may not be recoverable. Where the carrying value of an asset exceeds its recoverable amount (i.e. the higher of value in use and fair value less costs to sell), the asset is written down accordingly.

Where it is not possible to estimate the recoverable amount of an individual asset, the impairment test is carried out on the asset's cash-generating unit (i.e. the lowest Company's of assets in which the asset belongs for which there are separately identifiable cash flows). Goodwill is allocated on initial recognition to each of The Company's cash-generating units that are expected to benefit from the synergies of the combination giving rise to the goodwill.

Impairment charges are included in the administrative expenses line item in the income statement, except to the extent they reverse gains previously recognized in the statement of recognized income and expense. During the years 2006 and 2007 no impairment charges of non-financial assets were required.

Functional and reporting currency

The majority of the revenues of the Company are generated in U.S. dollars. In addition, a substantial portion of the Company's costs is incurred in U.S. dollars. The Company's management believe that the U.S. dollar is the primary currency of the economic environment in which the Company operates. Thus, the functional and reporting currency of the Company is the U.S. dollar.

Foreign currency

Transactions entered into by the company in a currency other than the currency of the primary economic environment in which it operates (the "functional currency") are recorded at the rates ruling when the transactions occur. Foreign currency monetary assets and liabilities are translated at the rates ruling at the balance sheet date. Exchange differences arising on the retranslation of unsettled monetary assets and liabilities are similarly recognized immediately in the income statement, except for foreign currency borrowings qualifying as a hedge instrument.

**1 Accounting policies (Cont.)**

*Financial assets*

The Company classifies its financial assets into one of the following categories, depending on the purpose for which the asset was acquired. The Company's accounting policy for each category is as follows:

**Fair value through profit or loss:** This category comprises only in-the-money derivatives. They are carried in the balance sheet at fair value with changes in fair value recognized in the income statement.

**Loans and receivables:** These assets are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They arise principally through the provision of goods and trade receivables, but also incorporate other types of contractual monetary asset. They are carried at cost less any provision for impairment.

**Held-to-maturity investments:** These assets are non-derivative financial assets with fixed or determinable payments and fixed maturities that The Company's management has the positive intention and ability to hold to maturity. These assets are measured at amortized cost, with changes through the income statement. As of December 31, 2007, no such assets are held by the Company.

**Available-for-sale:** Non-derivative financial assets not included in the above categories are classified as available-for-sale and comprise The Company's strategic investments in entities not qualifying as subsidiaries, associates or jointly controlled entities. They are carried at fair value with changes in fair value recognized directly in equity. Where a decline in the fair value of an available-for-sale financial asset constitutes objective evidence of impairment, the amount of the loss is removed from equity and recognized in the income statement. As of December 31, 2007, no such assets are held by the Company.

*Financial Liabilities*

The company classifies its financial liabilities into one of two categories, depending on the purpose for which the liability was acquired.

**1 Accounting policies (Cont.)**

*Financial Liabilities (cont.)*

The Company's accounting policy for each category is as follows:

**Fair value through profit or loss:** This category comprises only in-the-money derivatives. They are carried in the balance sheet at fair value with changes in fair value recognized in the income statement in finance income or expense line.

**Other financial liabilities:** Other financial liabilities include the following items:

- Bank borrowings are initially recognized at fair value net of any transaction costs directly attributable to the issue of the instrument. Such interest bearing liabilities are subsequently measured at amortized cost using the effective interest rate method, which ensures that any interest expense over the period to repayment is at a constant rate on the balance of the liability carried in the balance sheet. Interest expense in this context includes initial transaction costs, as well as any interest or coupon payable while the liability is outstanding.
- Trade payables and other short-term monetary liabilities, which are initially recognized at fair value.

*Internally generated intangible assets (research and development costs)*

Expenditure on internally developed products is capitalized if it can be demonstrated that:

- it is technically feasible to develop the product for it to be sold;
- adequate resources are available to complete the development;
- there is an intention to complete and sell the product;
- The Company is able to sell the product;
- sale of the product will generate future economic benefits; and
- expenditure on the project can be measured reliably.

Capitalized development costs are amortized over the periods The Company expects to benefit from selling the products developed. The amortization expense is included within the cost of sales line in the income statement.

Development expenditure not satisfying the above criteria and expenditure on the research phase of internal projects are recognized in the income statement as incurred.

**1 Accounting policies (Cont.)**

Development costs are recognized in the statement of income seeing as the Company does not meet the abovementioned conditions. As of December 31, 2007 no development costs are capitalized.

Deferred taxation

Deferred tax assets and liabilities are recognized where the carrying amount of an asset or liability in the balance sheet differs to its tax base, except for differences arising on:

- the initial recognition of goodwill;
- goodwill for which amortization is not tax deductible;
- the initial recognition of an asset or liability in a transaction which is not a business combination and at the time of the transaction affects neither accounting or taxable profit; and
- investments in subsidiaries and jointly controlled entities where The Company is able to control the timing of the reversal of the difference and it is probable that the difference will not reverse in the foreseeable future.

Recognition of deferred tax assets is restricted to those instances where it is probable that taxable profit will be available against which the difference can be utilized.

The amount of the asset or liability is determined using tax rates that have been enacted or substantially enacted by the balance sheet date and are expected to apply when the deferred tax liabilities/(assets) are settled/(recovered).

Deferred tax balances are not discounted.

Taxes on income

Tax-exempt income derived from “approved enterprises” will be subject to tax in the event of distribution of dividends out of such income. Such additional tax has not been provided for in the financial information, since the current policy of the Company is not to distribute dividends incurring additional tax.

Inventories

Inventories are initially recognized at cost, and subsequently at the lower of cost and net realizable value. Cost comprises all costs of purchase.

Weighted average cost is used to determine the cost of ordinarily interchangeable items.

**1 Accounting policies (Cont.)**

Property, plant and equipment

Items of property, plant and equipment are initially recognized at cost. As well as the purchase price, cost includes directly attributable costs and the estimated present value of any future costs of dismantling and removing items. The corresponding liability is recognized within provisions. Depreciation is computed by the straight line method, based on the estimated useful lives of the assets, as follows:

	<u>Rate of depreciation</u>
Machinery and equipment	6 - 20 %
Leasehold improvements	15 %
Computers	10 - 33 %
Office furniture and equipment	6 - 15 %

Leasehold improvements are depreciated over the term of the expected lease including optional extension, or over the estimated useful lives of the improvements, whichever is shorter.

Cash and cash equivalents

Cash equivalents are considered by the Company to be highly-liquid investments, including, inter alia, short-term deposits with banks, the maturity of which did not exceed three months at the time of deposit and which are not restricted.

Estimates and Assumptions in the Financial information

The preparation of financial information in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, disclosure of contingent assets and liabilities at the dates of the financial information and the reported amounts of revenues and expenses during the reporting periods. Actual results could differ from those estimates.

**1 Accounting policies (Cont.)**

Share-based payments

Where equity settled share options are awarded to employees, the fair value of the options at the date of grant is charged to the income statement over the vesting period. Non-market vesting conditions are taken into account by adjusting the number of equity instruments expected to vest at each balance sheet date so that, ultimately, the cumulative amount recognised over the vesting period is based on the number of options that eventually vest. Market vesting conditions are factored into the fair value of the options granted. As long as all other vesting conditions are satisfied, a charge is made irrespective of whether the market vesting conditions are satisfied. The cumulative expense is not adjusted for failure to achieve a market vesting condition.

Where the terms and conditions of options are modified before they vest, the increase in the fair value of the options, measured immediately before and after the modification, is also charged to the income statement over the remaining vesting period.

Provision for warranty

Based on past experience, the Company does not record any provision for warranty of its products and services.

Employee benefits

According to Israeli work laws, employment agreements in Israel and the Company's practice, the Company is obligated to pay severance payments to its employees upon dismissal and in some circumstances, even if the employee has resigned or retired. The company's obligation for severance pay is dealt as a "defined benefit plan".

The severance pay's provision, as shown in the balance sheet, represents the present value of the defined benefit plan as of the balance sheet's date. The provision is calculated by independent actuaries based on the "Projected Unit Credit" method. The provision's present value is determined by the capitalization of future expected cash flows (after taking in consideration future wages growth's rate) on the basis of government bonds' interest rates stated in the same currency as the benefits' payments.

With there occurrence, the company credits the actuary gains or losses, that have derived as a result of actuary assumptions and as a result of changes between previous assumptions and the actual results, to the income statement.

The company acquires insurance polices and deposits in severances funds according to its obligation.

**1 Accounting policies (Cont.)**

Employee benefits (cont.)

The privilege to severance pay by the insurance policies is considered a return of expenses, whereas it is certain that the insurance company will, fully or partially, return the expenses needed to cover the severance pay obligation.

The return of expenses' right that results from the severance pay funds is presented at fair value, whereas the changes are credited to the P&L report.

Transactions with controlling parties

Transactions with controlling shareholders are disclosed in conformity with the provisions of the International Accounting Standard 24 (related party disclosures and transactions).

Earnings per Share (EPS)

Earnings per Share is determined and presented in accordance with IAS 33.

Basic net earnings per share are computed based on the weighted average number of common shares outstanding during each year. Diluted earnings per share is computed based on the weighted average number of common shares outstanding during each year, plus dilutive potential common shares considered outstanding during the year.

Segment reporting

The principles activities of The Company and its primary segments are:

- Antennas produced for commercial market.
- Antennas produced for the military market.

The secondary segments of The Company is geographic:

- Israel
- North America
- Europe
- Asia
- Other

Segment revenue and segment costs include items that are attributable to the relevant segments and items that can be distributed among segments. Non-distributed items include the Company's financial income and expenses and tax.

## 2 Restatement

The Company has restated the financial data for the period ending 31.12.2006 in order to retroactively reflect the change made in the accounting treatment of warrants granted to certain investors.

The restatement relates to the 3,730,631 warrants (the “Warrants”) issued to certain investors. These Warrants contain an option to be exercised on a “cashless” basis (allowing the investors to get less shares but with no payment for the exercise, resulting in a lower dilution to existing shareholders). These Warrants should have been recorded at their fair value as a liability instead of Company’s equity on the IPO date, and thereafter in each financial reporting statement be marked to market by adjusting the liability against financial income or expenses as applicable.

### A. Following are the effects of the restatement on the balance sheet items (in US\$ thousands):

As of 31.12.2006:

	<u>Prior to the restatement</u>	<u>Net change</u>	<u>Following the restatement</u>
Liabilities due to warrants	-	1,240	1,240
Additional paid-in capital	16,357	(1,412)	14,945
Retained earnings	1,997	172	2,169

### B. Following are the effects of the restatement on the statement of operations items (in US\$ thousands):

For the period ended 31.12.2006:

	<u>Prior to the restatement</u>	<u>Net change</u>	<u>Following the restatement</u>
Financial (income) expenses, net	(472)	(172)	(644)
Net profit	3,623	172	3,795

### C. Following are the effects of the restatement on the earnings, per share:

For the period ended 31.12.2006:

	<u>Prior to the restatement</u>	<u>Net change</u>	<u>Following the restatement</u>
Basic	0.0736	0.0034	0.0770
Diluted	0.0708	0.0033	0.0741

**3 Revenues**

	<b>For the year ended December 31,</b>	
	<b>2007</b>	<b>2006</b>
	<b>\$'000</b>	<b>\$'000</b>
<b>Revenues arise from:</b>		
Sale of goods	<u>19,035</u>	<u>16,463</u>

	<b>For the year ended December 31,</b>	
	<b>2007</b>	<b>2006</b>
	<b>\$'000</b>	<b>\$'000</b>
<i>Revenues</i>		
Customer A	5,059	5,197
Customer B	712	857
Customer C	955	441
Customer D	207	1,087
Others	<u>12,102</u>	<u>8,881</u>
	<u>19,035</u>	<u>16,463</u>

**4 Profit from operations**

	<b>For the year ended December 31,</b>	
	<b>2007</b>	<b>2006</b>
	<b>\$'000</b>	<b>\$'000</b>
This has been arrived at after charging:		
Wages and salary	4,039	3,243
Depreciation of property, plant and equipment	309	282
Material and subcontractors	8,518	7,539
Operating lease expense	379	349
Plant, Machinery & Usage	704	568
Travel & Exhibition	367	376
Advertising & Commissions	300	228
Consultants	376	318
Others	<u>314</u>	<u>248</u>
	<u>15,306</u>	<u>13,151</u>

## 5 Segments

### 1. Segment information

The Company's primary reporting format for reporting segment information is business segments.

	<u>Commercial</u> <u>2007</u> <u>\$'000</u>	<u>Military</u> <u>2007</u> <u>\$'000</u>	<u>Total</u> <u>2007</u> <u>\$'000</u>
<i>Revenue</i>			
External	15,126	3,909	19,035
Total	<u>15,126</u>	<u>3,909</u>	<u>19,035</u>
<i>Profit</i>			
Continuing operations	2,555	1,174	3,729
Total	<u>2,555</u>	<u>1,174</u>	<u>3,729</u>
<i>Other</i>			
Depreciation, amortisation and other non-cash expenses	<u>195</u>	<u>114</u>	<u>309</u>
	<u>Commercial</u> <u>2006</u> <u>\$'000</u>	<u>Military</u> <u>2006</u> <u>\$'000</u>	<u>Total</u> <u>2006</u> <u>\$'000</u>
<i>Revenue</i>			
External	14,293	2,170	16,463
Total	<u>14,293</u>	<u>2,170</u>	<u>16,463</u>
<i>Profit</i>			
Continuing operations	2,646	666	3,312
Total	<u>2,646</u>	<u>666</u>	<u>3,312</u>
<i>Other</i>			
Depreciation, amortisation and other non-cash expenses	<u>192</u>	<u>89</u>	<u>281</u>

(\*) The company can not distinguish between Commercial and Military assets and liabilities, due to the fact that some of the assets and liabilities are used by both segments.

**5 Segments (Cont.)**

## 1. Segment information (cont.)

The Company's secondary reporting format for reporting segment information is geographic segments.

	<b>External revenue by location of customers</b>	
	<b>2007</b>	<b>2006</b>
	<b>\$'000</b>	<b>\$'000</b>
Israel	10,012	7,996
North America	4,374	3,738
Europe	3,358	3,548
Asia	1,172	1,029
Other	119	152
	<u>19,035</u>	<u>16,463</u>

**6 Finance income and expense**

	<b>2007</b>	<b>2007</b>	<b>2006</b>	<b>2006</b>
	<b>\$'000</b>	<b>\$'000</b>	<b>\$'000</b>	<b>\$'000</b>
<i>Finance expense</i>				
Bank borrowings	13		10	
Foreign exchange	30		46	
Bank charges	<u>51</u>		<u>46</u>	
		94		102
<i>Finance income</i>				
Interest received on bank deposits	120		27	
<i>Other</i>				
Gains from warrants and marketable securities	<u>1,249</u>		<u>(*) 719</u>	
		<u>1,369</u>		<u>746</u>
		<u>1,275</u>		<u>(*) 644</u>

(\*) Restated - see note 2.

**7 Tax expense**

A. Tax Laws in Israel:

1. Law for the Encouragement of Capital Investments, 1959:

Pursuant to the provisions of the said law, the Company is eligible for tax benefits resulting from implementation of programs for investment in assets, in accordance with the letters of approval they received (“approved enterprises”), which grant the Company the right to exemption from tax for a period of two year and subsequent to such period - to tax at a reduced rate of 25% on income derived from the approved enterprise, subject to fulfilment of the conditions stipulated in the letter of approval.

The period in which the Company will enjoy the tax exemption or reduced tax rate is limited in each letter of approval to seven years from the first year in which taxable income is earned (actual - from the year 2005). If the percentage of a Company’s share capital held by foreign shareholders exceeds 25%, the Company will be entitled to reduced tax rates for a further five years.

If the Company distributes dividends out of the exempt income of the approved enterprise, the Company will be subject to tax at the rate of 25% on the distributed income.

2. Tax rates:

In July 2005, due to new tax legislation, the reduction in the tax rate for Israeli Companies was accelerated. On July 1, 2004 and in 2005, the Corporate tax rate was reduced to 35% for 2004 tax year, 34% for the 2005 tax year, 31% for the 2006 tax year, 29% for the 2007 tax year , 27% for the 2008 tax year, 26% for the 2009 tax year and 25% for the 2010 tax year and thereafter.

3. Taxation under inflationary conditions:

The Company is subject to the Income Tax Law (Inflationary Adjustments), 1985, which instituted the measurement of the results for tax purposes on a real (inflation-adjusted) basis. The various adjustments required under this law are intended to adjust the nominal results for tax purposes to NIS of the end of the year (according to the changes in the Index).

B. Income tax assessments:

The Company has final tax assessments up and including the year 2002.

**M.T.I Wireless Edge Ltd.**

**Notes forming part of the financial statements for the year ended December 31, 2007**

**7 Tax expense (Cont.)**

B. Income tax assessments (cont.):

	<u>2007</u> <u>\$'000</u>	<u>2007</u> <u>\$'000</u>	<u>2006</u> <u>\$'000</u>	<u>2006</u> <u>\$'000</u>
<i>Current tax expense</i>				
Israeli income tax on profits for the year	<u>390</u>		<u>174</u>	
		390		174
<i>Deferred tax income</i>				
Origination and reversal of temporary differences	<u>26</u>		<u>13</u>	
		26		13
<b>Total tax charge</b>		<u><u>364</u></u>		<u><u>161</u></u>

The reasons for the difference between the actual tax charge for the year and the standard rate of corporation tax in Israel applied to profits for the year are as follows:

	<u>2007</u> <u>\$'000</u>	<u>2006</u> <u>\$'000</u>
Profit before tax	5,004	3,956
Expected tax charge based on the standard rate of corporation tax in Israel of 29% (2006 - 31%)	1,451	1,226
Expenses not deductible for tax purposes	28	15
Income not subject to tax	(501)	(123)
Losses and temporary differences for which deferred taxes were not recorded	(300)	(407)
Tax benefit ascribed to approved enterprise	(329)	(566)
Other	<u>15</u>	<u>16</u>
Total tax charge	<u><u>364</u></u>	<u><u>161</u></u>

**M.T.I Wireless Edge Ltd.****Notes forming part of the financial statements for the year ended December 31, 2007**

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**8 Earnings per share**

	<u>2007</u> <u>\$'000</u>	<u>2006</u> <u>\$'000</u>
Earnings used in basic EPS	4,640	3,795
Earnings used in diluted EPS	4,640	3,795
Weighted average number of shares used in basic EPS	53,779,998	49,262,202
Effects of:		
shareholders and underwriters share options	<u>625,035</u>	<u>1,920,376</u>
Weighted average number of shares used in diluted EPS	<u>54,405,033</u>	<u>51,182,578</u>
Basic net EPS	<u>0.0863</u>	<u>0.0770</u>
Diluted net EPS	<u>0.0853</u>	<u>0.0741</u>

**9 Dividends**

	<u>2007</u> <u>\$'000</u>	<u>2006</u> <u>\$'000</u>
Dividend of 1.67 (2006 - 5.2) cents per ordinary share proposed and paid during the year relating to the previous year's results	<u>898</u>	<u>2,000</u>

The directors are proposing a dividend of 1.85 cents per share totaling US\$ 995 thousands. This dividend has not been accrued at the balance sheet date.

**10 Property, plant and equipment**

	<b>Machinery &amp; equipment</b>	<b>Office furniture &amp; equipment</b>	<b>Leasehold Improvements</b>	<b>Computer equipment</b>	<b>Total</b>
	<b>\$'000</b>	<b>\$'000</b>	<b>\$'000</b>	<b>\$'000</b>	<b>\$'000</b>
<i>At 31 December 2006</i>					
Cost	2,920	214	170	838	4,142
Accumulated depreciation	<u>1,715</u>	<u>151</u>	<u>107</u>	<u>734</u>	<u>2,707</u>
Net book value	<u>1,205</u>	<u>63</u>	<u>63</u>	<u>104</u>	<u>1,435</u>
<i>At 31 December 2007</i>					
Cost	3,115	224	279	920	4,538
Accumulated depreciation	<u>1,937</u>	<u>161</u>	<u>126</u>	<u>792</u>	<u>3,016</u>
Net book value	<u>1,178</u>	<u>63</u>	<u>153</u>	<u>128</u>	<u>1,522</u>
<i>Year ended 31 December 2006</i>					
Opening net book value	1,255	62	68	56	1,441
Additions	156	11	6	102	275
Depreciation	<u>206</u>	<u>10</u>	<u>11</u>	<u>54</u>	<u>281</u>
Closing net book value	<u>1,205</u>	<u>63</u>	<u>63</u>	<u>104</u>	<u>1,435</u>
<i>Year ended 31 December 2007</i>					
Opening net book value	1,205	63	63	104	1,435
Additions	195	10	109	82	396
Depreciation	<u>222</u>	<u>10</u>	<u>19</u>	<u>58</u>	<u>309</u>
Closing net book value	<u>1,178</u>	<u>63</u>	<u>153</u>	<u>128</u>	<u>1,522</u>

**11 Goodwill**

	<u>Goodwill</u> <u>\$'000</u>
<i>At 31 December 2006</i>	
Cost	678
Accumulated amortization	<u>272</u>
Net book value	<u><u>406</u></u>
 <i>At 31 December 2007</i>	
Cost	678
Accumulated amortization	<u>272</u>
Net book value	<u><u>406</u></u>

**12 Inventories**

	<u>2007</u> <u>\$'000</u>	<u>2006</u> <u>\$'000</u>
Raw materials and consumables	1,431	1,341
Work-in-progress	33	7
Finished goods and goods for resale	<u>789</u>	<u>376</u>
	<u><u>2,253</u></u>	<u><u>1,724</u></u>

**13 Trade and other receivables - current**

	<u>2007</u> <u>\$'000</u>	<u>2006</u> <u>\$'000</u>
Trade receivables	4,947	4,306
Other tax and social security taxes	22	81
Other receivables	15	37
Unbilled revenues	1,354	811
Prepaid expenses	<u>31</u>	<u>125</u>
	<u><u>6,369</u></u>	<u><u>5,360</u></u>

**13 Trade and other receivables - current (Cont.)**

	<u>2007</u> <u>\$'000</u>	<u>2006</u> <u>\$'000</u>
<b>Balance as of</b>		
Customer A	1,381	1,707
Customer B	169	250
Customer C	256	-
Customer D	13	119
Others	<u>3,128</u>	<u>2,230</u>
	<u>4,947</u>	<u>4,306</u>

**14 Other financial assets**

	<u>2007</u> <u>\$'000</u>	<u>2006</u> <u>\$'000</u>
Fair value through profit or loss	<u>11,203</u>	<u>11,133</u>

The other financial assets consist of marketable securities.

**15. Cash and cash equivalents**

	<u>2007</u> <u>\$'000</u>	<u>2006</u> <u>\$'000</u>
<b>In New Israeli Shekels</b>		
Cash on hand and in banks	19	33
Deposits	<u>34</u>	<u>153</u>
	<u>53</u>	<u>186</u>
<b>In U.S. dollars</b>		
Deposits with banks	3,317	1,981
Total	<u>3,370</u>	<u>2,167</u>

**16 Trade and other payables - current**

	<u>2007</u> <u>\$'000</u>	<u>2006</u> <u>\$'000</u>
Trade Creditors	2,294	2,101
Employees and other wage and salary related liabilities	544	521
Other Creditors	19	10
Accrued expenses	331	359
Other tax	16	4
Related parties	18	272
	<u>3,222</u>	<u>3,267</u>

**17 Other current financial liabilities**

	<u>2007</u> <u>\$'000</u>	<u>2006</u> <u>\$'000</u>
Current portion of long-term liabilities to banks	<u>22</u>	<u>87</u>

**18 Liabilities due to warrants**

Warrants which contain an option to be exercised on a “cashless” basis (allowing the investors to get less shares but with no payment for the exercise, resulting in a lower dilution to existing shareholders). These warrants have been recorded at their fair value as at the balance sheet date, as a liability, according to B&S method. This was calculated with the following parameters:

Standard deviation 40% (2006 - 45%), time to maturity 1.2 years (2006 - 2.2), risk-free rate 4.5% (2006 - 4.9%).

**19 Non-current financial liabilities**

	<u>2007</u> <u>\$'000</u>	<u>2006</u> <u>\$'000</u>
Total long-term liabilities to banks	-	22
	<u>-</u>	<u>22</u>

Maturity dates:

	<u>2007</u> <u>\$'000</u>	<u>2006</u> <u>\$'000</u>
First year (current maturities)	22	87
Second year	-	22
	<u>22</u>	<u>109</u>

**19 Non-current Financial liabilities (Cont.)**

Under the Facility Agreement and the terms of the Company's long-term loans, the Company is committed to financial ratios and covenants as follows:

1. The total Tangible Shareholder's Equity of the Company should be no less than 12 million NIS, (approximately - 3 million Dollar) - linked to the Index for the month of November 2000, and its capital should be no less than 45%, of the Company's total Balance.
2. As of 1 January 2002, the Company's net income should be positive, although this condition was waived by the bank in respect of the year ended 31 December 2003.
3. As of 31 December, 2007, the Company continues to abide by the above commitments.

**20 Financial instruments - Risk Management**

The Company is exposed through its operations to one or more of the following financial risks:

- Foreign currency risk
- Credit risk

Foreign currency risk

Foreign exchange risk arises when Company operations enter into transactions denominated in a currency other than their functional currency. Management does not mitigate that risk.

Credit risks

Financial instruments which have the potential to expose the Company to credit risks are mainly cash and cash equivalents, bank deposit accounts, trade receivables, other receivables and long term debts.

The Company holds cash and cash equivalents and deposit accounts at large banks in Israel and in the Switzerland, thereby substantially reducing the risk of loss.

With respect to trade receivables, the Company believes that there is not a material credit risk in light of the fact that the Company's policy to assess the credit risk including the use of insurance instruments of customers before entering contracts.

Moreover, the Company evaluates trade receivables on a day to day basis and adjusts the allowance for doubtful accounts accordingly.

**21 Employee benefits****A. Composition:**

	<b>As at December 31, 2007 \$'000</b>
Liabilities for employee benefits	778
Plan assets	(512)
	<u>266</u>

**B. Movement in plan assets:**

	<b>As at December 31, 2007 \$'000</b>
At beginning of year	364
Exchange gain	36
Return on plan assets	13
Benefit paid	(10)
Actuarial gain	109
	<u>512</u>

**C. Movement in liabilities:**

	<b>As at December 31, 2007 \$'000</b>
At beginning of year	595
Exchange loss	96
Interest cost	43
Benefits paid	(22)
Actuarial gain	66
	<u>778</u>

- D.** The expenses and income in the income statement from employee benefits are included as salary and wage expenses in the relevant clauses.

**21 Employee benefits (Cont.)****C. Movement in liabilities (cont.):***Supplementary information*

1. The Company's liabilities for severance pay retirement and pension pursuant to Israeli law and employment agreements are full covered - in part by managers' insurance policies, for which the Company makes monthly payments and accrued amounts in severance pay funds and the rest by the liabilities which are included in the financial statements
2. The amounts accrued in managers' insurance funds are registered under the name of the employees, and therefore such amounts are not stated in the financial information as liability for termination of employee-employer relationships or amounts funded.
3. The amounts funded displayed above include amounts deposited in severance pay funds with the addition of accrued income. According to the Severance Pay Law, the aforementioned amounts may not be withdrawn or mortgaged as long as the employer's obligations have not been fulfilled in compliance with Israeli law.
4. Principal nominal actuarial assumptions:

	<b>As at December 31, 2007 \$'000</b>
Discount rate on plan liabilities	6.3%
Expected rate of return on plan assets	6%
Expected increase in pensionable salary	3.5%-5%

**22 Deferred Tax**

Deferred tax is calculated on temporary differences under the liability method using the tax rate at the year the deferred tax assets are recovered.

The movement on the deferred tax account is as shown below:

	<b>2007 \$'000</b>	<b>2006 \$'000</b>
At 1 January	69	56
Profit and loss charge	26	13
At 31 December	95	69

**M.T.I Wireless Edge Ltd.**

**Notes forming part of the financial statements for the year ended December 31, 2007**

**22 Deferred Tax (Cont.)**

Deferred tax assets have been recognized in respect of all differences giving rise to deferred tax assets because it is probable that these assets will be recovered.

Deferred tax assets and liabilities are only offset where there is a legally enforceable right of offset and there is an intention to settle the balances net.

Details of the deferred tax amounts charged to reserves are as follows:

	<b>Charged to reserves 2007 \$'000</b>	<b>Charged to reserves 2006 \$'000</b>
Accrued severance pay	66	58
Other temporary and deductible differences	29	11
	<u>95</u>	<u>69</u>

**23 Share capital**

	<b>Authorized</b>			
	<b>2007 Number</b>	<b>2007 NIS</b>	<b>2006 Number</b>	<b>2006 NIS</b>
Ordinary shares of NIS 0.01 each	100,000,000	1,000,000	100,000,000	1,000,000
	<b>Issued and fully paid</b>			
	<b>2007 Number</b>	<b>2007 NIS</b>	<b>2006 Number</b>	<b>2006 NIS</b>
<i>Ordinary shares of NIS 0.01 each at beginning of the year</i>	53,779,998	537,800	28,200,000	282,000
Employee share options exercised	-	-	6,462,000	64,620
Shares issued in relate with conversion of series A shares	-	-	3,618,000	36,180
Shares issued to directors**	-	-	115,383	1,154
Other issued for cash during the year (IPO)	-	-	15,384,615	153,846
At end of the year	<u>53,779,998</u>	<u>537,800</u>	<u>53,779,998</u>	<u>537,800</u>
<i>Series A shares of NIS 1 each at beginning of the year</i>	-	-	1,090	1,090
Conversion to ordinary shares	-	-	(1,090)	(1,090)
At end of the year	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>

\* On December 28, 2000, the Company reclassified 2000 old shares into series A shares.

On February 9, 2006, each of the series A shares was reclassified into ordinary shares.

\*\* On Admission, the company has issued a total of 115,383 shares to 3 non- executive directors.

**24 Share-based payment**

The Company operated one employee Share Option Plan. Under the plan, option vesting was for a period is 4 years.

In December 31, 2005, the Company accelerated the remaining vesting period of all options under the plan. All accelerated expense charged to income statement.

	<u>2007</u> <b>weighed average exercise</b>	<u>2007</u> <b>Number</b>	<u>2006</u> <b>weighed average exercise</b>	<u>2006</u> <b>Number</b>
Outstanding at beginning of year	-	-	*	6,462,000
Granted during the year				-
Forfeited during the year				-
Exercised during the year **	-	-	*	(6,462,000)
Lapsed during the year				-
Outstanding at the end of the year	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>

\* The exercise price of options is the ordinary share par value (NIS 0.01).

\*\* Exercised prior to IPO (the weighted average share price as date of exercise was 39 pence).

**25. Commitments and guarantees**

**A. Royalty commitments**

The Company is committed to pay royalties to the Government of Israel on proceeds from sales of products in the research and development of which the Government participates by way of grants. Under the terms of Company's funding from the Israeli Government, royalties of 2%-3.5% are payable on sales of products developed from a project so funded, up to 100% of the amount of the grant received, including amounts received by the Parent Company through July 1, 2000.

The maximum royalty amount payable by the Company at December 31, 2007 is US\$ 470,000. During the year 2007 the Company did not pay any royalties.

**B. Guarantees**

The Company has guarantees in favour of customers in the amount of US\$ 286,999. The guarantees are mainly to guarantee advances received from customers.

**25. Commitments and guarantees (Cont.)**

**C. Contingent liability**

On July 3, 2005, Mars Antenna RF Systems Ltd. ("Mars") filed a complaint (Civil Case No. 05/1867) in the District Court of Tel Aviv-Yafo against the Company, the parent company and the CEO of the company.

The lawsuit relates to certain printed circuits in three models of antennas that the Company sells to one of its customers. Mars claims that the printed circuits are an infringement of Mars' rights in its antennas, raising causes of action under copyright, passing off, unjust enrichment, negligence, breach of statutory duty and the Law for Protection of Integrated Circuits.

The lawsuit seeks monetary damages in the nominal sum of 100,000 NIS, (approximately - US\$ 26,000 which it reserves the right to modify in the future) and a permanent injunction, collection of the accused antennas, appointment of a receiver and an accounting of profits. In addition, Mars petitioned for provisional remedies prior to final judgment, including preliminary injunction, temporary receivership, and collection of the accused antenna. The Company answered the claims, stating that Mars does not own the copyright in the relevant circuits, that the Law for Protection of Integrated Circuits does not apply to the antennas, that consumers are not confused by any similarity, and other defences.

On 22 December 2005, the District Court partially granted Mars' petition for Provisional remedies and preliminarily enjoined the Company from manufacturing and selling the relevant antennae. On 26 December 2005, the Company moved for a stay of enforcement of the preliminary injunction until the Supreme Court's decision on the Company's anticipated petition for interlocutory appeal. On 26 October 2006, the Supreme Court acknowledges, in part, the company's claim and cancelled the petition with regard to a specific client for which the antennas were sold.

In addition, on November 3, 2005, the Company filed a complaint against Mars (Civil Case No. 05/2422) in the District Court of Tel Aviv-Yafo for infringement of the Company's design of its radome covers for antennas and its mounting kit. The lawsuit seeks monetary damages in the nominal sum of 500,000 NIS, (approximately US\$ 130,000 which it reserves the right to modify in the future), and a permanent injunction. In its answer, filed January 5, 2006, Mars defended against the Company's claim, itself issuing a counter-claim, stating that the legal action taken by the Company presents improper usage of the legal procedures and therefore is entitled to compensation as a result of damages caused by unfounded claims. On July 2, 2006, the court confirmed the Company's request to combine the two law-suits that were filed. The court also ruled that the hearings will begin on May 9, 2007.

**25. Commitments and guarantees (Cont.)**

**C. Contingent liability (cont.)**

On May 9, 2007 a court hearing in the joint case was held. In the hearing Mars filed a request to enlarge the suit amount to 2M NIS, approximately US\$ 520,000, and to order MTI to revile the number of antennas under the case that were sold. Mars request re enlarging the amount was approved and the other request was not answered yet. The next court hearing was set to March 2<sup>nd</sup>, 2008

The Company's legal counsels' opinion is such that at this time the chances of Mars Antennas to win its law-suites cannot be assessed, seeing as the legal issues arising during the procedure are cumbersome and have not been addressed in similar procedures before.

The information usually required by IAS 37 Provisions, contingent liabilities and contingent assets is not disclosed on the grounds that it can be expected to prejudice seriously the outcome of the litigation.

**26. Transactions with related parties**

The Parent Company and other related party provides certain services to the company. During 2007, the company paid \$ 599,000 (2006: \$537,000) to the Parent Company and other related party, for these services.

As of December 31, 2007 the company has no balance owing to related party (2006: 272 thousand dollars).

**27. Subsequent events**

- A. The Board of directors have decided to declare a dividend of 1.85 cent per share being approximately \$995,000
- B. The Board of directors a proved a buy back program of up to \$1.5 million subject to certain conditions.